UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

LIMITED

ST/ECLA/Conf.37/L.14
11 June 1971

ENGLISH
ORIGINAL: SPANISH

ECONOMIC COMMISSION FOR LATIN AMERICA

MEETING OF EXPERTS ON THE FORMULATION AND IMPLEMENTATION OF STRATEGIES FOR THE EXPORT OF MANUFACTURES

Santiago, Chile, 26 July to 4 August 1971

INDUSTRIAL POLICY IN LATIN AMERICA

(SUMMARY)

by the Industrial Development
Division, ECLA

Working document *

* This document is a summary of information documents ST/ECLA/Conf.37/L.7 and ST/ECLA/Conf.37/L.8.

71-6-1767

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I. CHARACTERISTICS AND EVOLUTION OF INDUSTRY IN LATIN AMERICA

1. Industrialization: present stage of development and growth trends

(a) Significance and main features of industry at the end of the decade

In all the Latin American countries industry has been the fastest-growing branch of activity in the post-war period and is currently the most important sector in the economy of the region.

In 1970, the value of manufacturing in the region amounted to rather more than 40,000 million dollars at current prices.1/ The share of industry in the total product of the region has risen constantly, reaching 23.9 per cent in 1969, although there has been a persistent decline in the growth of manufacturing in recent decades.2/

The bulk of the region's industry is concentrated in a handful of countries. Argentina, Brazil and Mexico have 63 per cent of the population of the region and account for about 75 per cent of the region's manufacturing output. Next come the bloc of countries signatory to the Cartagena Agreement, with 15 per cent of the region's manufacturing output, followed by the five member countries of the Central American Common Market (2.7 per cent), Venezuela (3.4 per cent), and the remaining countries (1.3 per cent).

The most industrialized countries (which have a coefficient of industrialization of more than 20 per cent) are Argentina, Chile, Brazil Uruguay, Mexico and Peru. Naturally, these countries also have the highest per capita industrial output, though with marked variations. At the other end of the scale (coefficients of between 12 and 14 per cent) are Bolivia, Haiti, the Dominican Republic and Venezuela: the first three of these countries have the smallest markets in the region, while in Venezuela the industrialization process has remained stagnant for many years on account of the country's very favourable foreign trade position.3/

1/ Barbados, Cuba, Guyana, Jamaica and Trinidad and Tobago are excluded from the analysis.

2/ The ratio of the growth rate of industry to the over-all growth rate of the Latin American product was 1.36, 1.28 and 1.19 in 1940-1950, 1950-1960 and 1960-1969, respectively.

3/ See tables 2 and 3 of document ST/ECLA/Conf.37/L.7.

/(b) The

(b) The structure of production

The growth of the region's industry over the last twenty years has brought with it more or less far-reaching changes in the qualitative structure of production. For the region as a whole, the share in manufacturing output of the industries producing chiefly consumer goods fell from two-thirds to one-third, while that of the intermediate and the durable consumer and capital goods industries rose from 20 to 30 per cent and from 11.5 to 19 per cent, respectively. The increase in the production of intermediate goods is due to the remarkable upswing in the production of basic metals, chemicals and petrochemicals, which account for 53 and 21 per cent of output in that category, respectively.

An examination of the degree of industrialization and of the structure of manufacturing output brings out the following points:4/

(i) There is a clear negative association between the degree of industrialization and the share of consumer goods in industrial output.

(ii) The share of the durable capital and consumer goods industries shows a marked upswing only after a certain stage of development in the basic or intermediate goods industries has been reached.5/

(iii) The share of the intermediate goods industry is less affected by the degree of industrialization and is not too low in Latin America, unlike the durable consumer and capital goods industries.

For a more detailed analysis of the structure of the industrial product in selected Latin American countries, see table 5 of document ST/ECLA/Conf.37/L.7.

(c) Industrial employment

A study of the process of industrial development in Latin America from the point of view of employment points up the following main features: (i) a low capacity to absorb labour; (ii) a low employment coefficient compared with other countries or regions at a similar stage of industrialization; and (iii) the absence of a clear functional relationship between the stage of industrialization and the different qualitative structures it involves, on the one hand, and the rate of absorption of labour, on the other.

4/ See table 3 and figure I of document ST/ECLA/Conf.37/L.7.

5/ Figure I of the above document shows that this happens in countries where the industrialization coefficient has surpassed 22 per cent.

/It has

It has taken twenty years for the proportion of manpower employed in industry in the region to rise from 14 to 15 per cent, as a result of various developments connected with the rate of assimilation of technology, qualitative changes in the industrial stock and the growth rate of the sector.

There are very marked differences in the rate of creation of industrial employment opportunities in the different Latin American countries. In any event, it would appear that, in comparison with other countries, less labour is absorbed into industry in the countries of the region than should be the case in view of the stage of industrialization they have reached.

(d) Location of industry

The development of industry in Latin America has been focused increasingly on the cities. In all the countries for which information was made available, the two provinces or states which contain the two principal towns account for between 51 and 83 per cent of the gross industrial product. The centralized structure of industrial activity stems primarily from the location of population linked with traditional forms of use of economic space, dating from colonial times, which relate to the features of the industrialization process itself.6/

In view of this situation, in the last decade, most of the countries of the region undertook programmes aimed at a broader geographical distribution of industrial development.

6/ See The Process of Industrial Development in Latin America (United Nations publication, Sales No.: 66.II.G.4) and chapter II and table 8 of document ST/ECLA/Conf.37/L.7.

/2. Long-term

2. Long-term trends in manufacturing and principal factors influencing industrial progress

There is a certain amount of uniformity in the long-term growth pattern of Latin American industry as a whole. The industrial product expanded at an average annual rate of 6 per cent during the 1950s and 6.2 per cent during the 1960s.[7/] Nevertheless, as industry in the industrialized countries of the West and in the countries with centrally planned economies grew rapidly, Latin America's backwardness was accentuated by comparison, and its prospects for participating in the world market for manufactures were weakened even further.

The most important factors determining industrial progress in Latin America have been the size of the domestic market, the level of external restrictions and the region's share in the external market for manufactures.

The first factor - size of internal market - can be broken down into three elements: population, average income level and structure of income distribution. The evolution of external restrictions is measured in terms of the proportion of import capacity in the gross domestic product.

The first conclusion to be drawn is that per capita income is the most important factor in the size of the industrial sector. There is a noticeable link between this variable and the degree of industrialization in the majority of the Latin American countries, especially when viewed in a long-term perspective, grouping the countries in increasing order of average per capita income.

These are pronounced increases in the degree of industrialization in the lower income groups (up to 400 dollars per capita), virtually no increases in the intermediate groups, and significant increases again in the higher groups (over 700 dollars per capita).

7/ It should be mentioned that, in the last two years, the product has grown to an annual average of 8 per cent. See table 9 of document ST/ECLA/Conf.37/L.7.

/However, an

However, an examination by country brings to light a variety of situations that do not fit into this scheme. Thus, there are countries with the same or very similar income levels and very different degrees of industrialization: high income and little industrialization and vice versa. (See tables 10 and 11 and figure II of document ST/ECLA/Conf.37/L.7.)

As regards the population variable, it is observed that the association between population and the degree of industrialization appears to exist only within very broad margins of variation in the size of the population. A large population provides scope for more advanced industrial structures because, generally speaking, the more complex the manufacture, the greater the economies of scale that can be obtained in its production.

Urban-rural distribution appears to be a more influential factor than actual population size. There is a marked positive correlation between the proportion of the population that lives in towns and the relative stage of industrial development. (See table 12 and figure III of the above-mentioned document.)

II. GENERAL FEATURES OF INDUSTRIAL POLICY IN LATIN AMERICA

1. Introduction

This section examines the general features of industrial policy in Latin America, the changes that it has undergone in the long term, and the relationship between these changes and the transformations that have taken place in industry during the same period; at the same time, an attempt is made to evaluate, albeit superficially, the coherence and effectiveness of those policies.

The countries on which background material was available are analyzed by groups, which are defined in accordance with the following two criteria: market size and links with integration systems. The first criterion makes it possible to identify the qualitative differences in the industrial policy of countries that have reached different stages of industrialization ("functionability" of industrial policy with regard to industrial progress).

/The second

The second criterion responds to the need to analyze the industrial policies of two groups of countries - those that signed the Andean Agreement and the members of the Central American Common Market - which have taken steps to harmonize their industrial policy, and where a major part of industry is or will in the future be subject to common decisions.

2. General trends

The recent industrial policy of the countries of the region has been concerned principally with the following problems: employment, income distribution and marginality, external disequilibrium, excessive spatial concentration of industry, the relative backwardness of certain subsectors, excessive technological dependence, and idleness or poor use of human, natural and capital resources, while another matter for concern of a different nature is the recent trend towards the foreign take-over of Latin American industry.

Although most of the countries of the region have rearranged and reshaped their industrial policy, this policy has not entirely lost its fragmentary nature. There has been no reformulation of the whole range of instruments in accordance with an over-all development programme, but rather, new instruments and measures have in general been superimposed on earlier ones, in order to achieve specific objectives, often in response to the initiative of particular sectors or regions.

The more industrialized among the Latin American countries are increasingly tending to include more specific instruments in their industrial policy. In the long term, protectionist policy has become more selective, and customs tariffs have, on average, gone down; this has happened in Argentina, Brazil and Mexico.

A country's participation in an integration system forces it to redefine its industrial policy. Although its industrial development objectives are not likely to change significantly, there is no doubt that there may be considerable variation in the manner and time in which these objectives are achieved. Moreover, a special situation arises owing to the dismantling of the tariff structure in the integration area and the establishment of a common external tariff.

3. Industrial

3. Industrial policy and the development of manufacturing in specific countries or groups of countries in Latin America

(a) Argentina, Brazil and Mexico

(i) Argentina has the highest coefficient of industrialization of any country in Latin America. Its industrial policy covers two stages: the first, during which the consumer goods industries were developed and consolidated, finished at the end of the 1950s, while in the second stage the aim is to develop the intermediate and capital goods industries and to promote exports of manufactures. Three basic instruments were applied in the first stage: bank credit, tariff concessions and control of competitive imports.

At the beginning of the second stage, an important step was taken towards shaping industrial policy when the National Development Council (Consejo Nacional de Desarrollo - CONADE) drew up a plan for the period 1965-1969. The development of basic industries and the consolidation of capital goods production were assigned the chief priority in industrial policy. The measures adopted included the lifting of restrictions on foreign exchange operations and the establishment of a new fixed parity exchange rate in line with the stabilization programme. A tariff reform was carried out with the purpose of increasing the efficiency and competitiveness of industrial enterprises and mitigating the effect of the currency devaluation on internal costs and on the price of imported products.

The main industrial policy aims in the second stage were to develop the dynamic industries employing more complex technology and requiring greater investment; to promote greater efficiency and productivity in established industry through increased external competition, and to increase exports of manufactures.

Exports of manufactures have come to represent a priority objective in Argentina only in recent years, although most of the instruments for their promotion were set up between 1960 and 1966. This is because no special importance appears to be attached to this objective of the industrial strategy contained in development plans and, secondly, because

/exports of

exports of manufactures have amounted to only 5 to 10 per cent of total exports in recent years. With the aim of establishing the structure for implementing a vigorous export promotion policy, the National Export Service was established and fiscal incentives and credit facilities are being granted. These measures include the drawback system, the refund of taxes paid on the domestic market, a deduction of 10 per cent of the f.o.b. value of exports from the amount liable to income tax in an enterprise, the granting of credit prior and subsequent to shipment, credit for reinforcing working capital, and export credit insurance. The main concern continues to be the generally low levels of efficiency and, therefore, the limited competitive capacity of industry, and as part of the same problem, Argentina's difficulty in expanding its exports of manufactures, despite all its efforts and the group of development instruments which it has put into operation. Thus, the general view is that if Argentina is to gear its industry to foreign markets through exports of manufactures, industrial production will have to be more highly specialized, not only in some but in all sectors, so as to achieve flexible supply and far-reaching technological development.

(ii) Brazil's industry, which grew by about 10 per cent annually over the past five years, seems recently to have changed its pattern of growth. Up to the beginning of the 1960s the driving force of Brazilian industry was import substitution, which was carried beyond the limits reached by this process in other Latin American countries, except probably Argentina. From 1966 onwards, industry seemed to gain new impetus through a sharp increase in non-traditional manufactures, which currently present a high level of integration and diversification. There is a close relationship between industries, which has enhanced the dynamic effects deriving from the independent growth of demand for consumer and capital goods. During this process, however, certain problems seem to have arisen or been accentuated, such as industry's dwindling capacity to absorb labour, increasing denationalization, geographical polarization of industry beyond certain limits, and its lack of any active role in the unequal structure of income distribution. It is therefore necessary to open up new sources of dynamism, and the present

/approach centres

approach centres on an energetic policy governing exports of manufactures with constant reference to the need to modify the structure of income distribution. Moreover, the Development Programme Strategy prepared by the Ministry of Planning and Co-ordination establishes, first that, the import substitution model should continue and, secondly, that future growth should rest on the expansion of the domestic market and the reduction of manufacturing costs, for which purpose steps would be taken to raise industrial productivity and to reduce the cost of basic raw materials and financing costs, and, if possible, the tax burden. Under this programme, the policy of promoting exports of manufactures and semi-manufactures should be made even more effective, for which purpose the Government should guarantee total exemption from taxes on export items, and adopt other measures designed mainly to standardize the regulations governing shipment and storage. As regards export financing, the programme provides that the necessary conditions should be established for the banking system to grant the same credit facilities as those obtainable on the international market. The above measures would supplement those adopted in the 1960s to step up exports of manufactures, which included tariff, tax, credit and administrative incentives. For example, in 1964 the share of production destined for export was declared exempt from consumer tax; in 1965 firms were allowed to deduct the profits obtained from exports of manufactured products from the total profits liable to income tax and in 1966 the Foreign Trade Council (Conselho Nacional do Comércio Exterior - CONCEX) was set up; thus the formulation and implementation of export and import policy were centred in a single body. Several rules were also laid down, such as the elimination of all export taxes, quotas and payments, and regulations governing the Export Financing Fund (Fundo de Financiamento a Exportação - FINEX). The export credit insurance system was expanded in 1968 and a reduction was granted in the tax on manufactured products used in export items. The drawback system, tax reductions and the refund of taxes on lubricants, fuels and energy are other mechanisms favouring Brazilian exporters. The medium- and long-term credit extended by the Department of Foreign Trade (Carteira de Comércio Exterior - CACEX) of the Banco do Brasil S.A., with funds from FINEX, and the refinancing line

/opened by

opened by the Central Bank of Brazil are particularly important features. This policy is yielding positive results, to judge from the increase in the value of exports of manufactures over the past five years (154 million dollars in 1965, 283 million in 1969, and an 86 per cent rise between the first half of 1969 and the first half of 1970).

(iii) Mexico. Despite the vigorous growth of Mexico's industrial sector over the past twenty years (7 per cent annual average growth rate), certain fundamental problems have arisen which may be summarized as follows: (a) slight structural debility of the industrial stock, reflected in the relative backwardness of the industries producing capital goods and the metal-transforming sector in general; (b) excessive geographical concentration of industry; (c) low levels of efficiency in certain branches of industry; (d) co-existence in certain sectors of industries employing traditional methods and techniques of production and others employing complex technology; and (e) the growing external dependence of industry.

A brief analysis of industrial policy measures in Mexico shows that, out of the broad range of instruments and machinery used to give practical effect to such policy, the greatest impact has probably been made by those instruments relating to protection of industry from foreign competition. Direct measures for development and the Government's credit policy have also played an important part. Among these, the most striking are the law governing new and essential industries, Rule XIV of the General Import Tariff, accelerated depreciation, Manufacturing Programmes for Industrial Integration and Lists of Industrial Shapes.

Many recent official papers and statements have shown concern about the definition of a new industrial policy aimed at increasing the effectiveness of the sector, decentralizing its growth, encouraging industrial integration and expanding sales of manufactured products abroad. With regard to this last, it is proposed to supplement the promotion machinery in force - differential taxes on exports, compensation agreements, tax exemptions on exports, drawback, credits - with detailed programmes based on the potential sales of new products and making use of the comparative advantages. An institutional structure exists to bring this policy into effect, in the form of the Banco Nacional de

/Comércio Exterior

Çomércio Exterior, S.A., backed by machinery such as the Fund for the Development of Exports of Manufactured Products and the National Information Centre on Foreign Trade and the recently established Foreign Trade Institute, which will co-ordinate action in this field.

(b) Countries comprising the Andean subregion

(i) Industrial policy in Colombia, Chile and Peru. These three countries use similar export promotion methods which they put into practice at approximately the same time. Most of the important export promotion mechanisms were established from 1960 onwards. Among the instruments common to the three countries may be mentioned the refund of taxes on imports of raw materials and other materials used in the manufactures of export products, export credit before and after shipment, and export credit insurance. Of the three, Colombia has the most comprehensive system with perhaps the most efficient structure. In addition to the above-mentioned instruments, it offers foreign exchange incentives (preferential exchange rate for exports of manufactures) and fiscal incentives (exemption from income tax). Its credit activities include those of the Export Promotion Fund and the Private Investment Fund, which specializes in export financing. As distinct from Chile and Peru, where incentives are applied in a more general manner, in Colombia they are provided through contracts with the Government, which makes for a better control of their application for the appropriate purposes.

Colombia's industrial policy is at present geared to the solution of two basic problems that are affecting its economy: its growing disequilibrium in the external sector, and acute unemployment. To that end, it has embarked upon a programme for the promotion of exports of manufactures. As early as 1959, when the Vallejo Plan was established by law, preferential treatment was accorded to industries which produced exclusively for export. The benefits conferred on them under the terms of contracts with the Ministry of Development included a preferential rate for selling foreign exchange obtained from exports and exemption from income tax and prior import deposits. Additional concessions (duty-free imports of raw materials to replace those used in the production of export items) were granted under the second Vallejo Plan in 1964.

The Export Promotion Fund administered by the Banco de la República, whose operations are financed with the proceeds of a 1.5 per cent tax on imports and which contracts internal and external loans, keeps exporters informed about possible markets and gives them credit facilities on terms as favourable as those enjoyed by world competitors in the same products. It also provides credit lines to financing concerns and commercial banks to enable them to increase their share in the financing of exports.

(ii) Industrial policy in Bolivia and Ecuador. Industry in Bolivia and Ecuador is at a more incipient stage of development than in the other three countries in the group. Ecuador's Industrial Development law provides tax incentives to industries, which are divided into three categories in decreasing order of priority. The first two categories include industries which are considered to be of key importance for the country's development, export not less than 50 per cent of their production, are engaged in import substitution activities, or produce raw materials, intermediate goods or machinery.

When Bolivia's Private Investment Development Law was promulgated in 1965, the Investment Promotion Institute (Instituto Promotor de Inversiones - INPIBOL) was established at the same time to put this law into effect. The purpose of these instruments is to contribute to the implementation of the industrial strategy, which embraces a period of twenty-one years divided into three phases that coincide with those envisaged in the Cartagena Agreement. During the first phase (1970-1975), the industrial development process will be reoriented on the basis of selectivity and specialization. An attempt would thus be made to give priority to the establishment of key industries which can enter quickly into operation, to select areas of specialized production for export, to identify the large industrial complexes which will facilitate the processing of Bolivia's abundant mining, hydrocarbon and agricultural resources, and to give impetus to the development poles in Oruro and Santa Cruz. In the second phase (1976-1981), the export industry will take on more importance with the incorporation of new industrial complexes.

/The industrial

The industrial strategy drawn up by the National Planning Board of Ecuador is similar to Bolivia's in so far as the emphasis in the initial stage of industrial development is on import substitution. Two types of industry will be established: some exclusively to supply the home market, and others whose specialized production will be exported to the subregional market.

(c) Venezuela

Venezuela's industrial policy has been strongly influenced by two interrelated factors: large-scale petroleum production and a late-starting industrial development process. From 1958, when there was a severe crisis in the external sector, the Government adopted various measures which triggered a fairly intensive process of import substitution, with industry gradually replacing the petroleum sector as the motive force of the system. In most Latin American countries, both the development of import substitution and, more recently, the policy of promoting exports of manufactures have been largely determined by considerations linked to external sector difficulties. This has not been the case in Venezuela, whose industrial development has stemmed mainly from the necessity of diversifying the economy and making it less dependent on petroleum.

For all this, and despite the evident importance attached to the need to gear industrial development to the international market, the export incentives affecting manufactured goods are not so far-reaching in Venezuela as in other Latin American countries. This does not mean that there are not some important measures, such as credit priorities for export industries, exemption from storage charges, the action of the advisory committee on export policy which minimizes the number of institutions operating in this field, the elimination of export licence requirement, etc. However, measures of this kind, which are not designed to change the structure of supply but rather to make the marketing and selling machinery more expeditious, will necessarily have a limited effect on an industrial sector whose products are not of sufficiently good quality to gain access to the world market. In 1968, exports of manufactures amounted to 33 million dollars, a mere 1.3 per cent of total exports.

/Consequently, the

Consequently, the new industrial strategy outlined by the Central Office for Planning and Co-ordination (Oficina Central de Coordinación y Planificación - CORDIPLAN) is aimed at establishing export industries in those lines for which Venezuela has plentiful natural resources and for which world demand is increasing, such as the chemical, petrochemical and metal-transforming industries.

(d) Paraguay, Dominican Republic and Uruguay

Paraguay's new Two-Year Plan (1967-1968) contained the main guidelines for promoting industrial development: use of domestic raw materials, location in suitable areas in the interests of over-all development, and promotion of exports of manufactures. This last objective has been pursued through the provision of incentives, such as, the elimination of duties on primary products, the granting of certain facilities for the installation of export industries, liberalization of the exchange rate, and reductions in customs tariffs and valuations. However, the effect of these incentives seems to have been limited by their excessively broad scope or lack of selectivity. A more recent step was to establish the Export Promotion Centre, whose activities include the study of markets for new and traditional products, and the Institute of Technology, which lays down quality standards and methods for the control of manufactured products, a particularly important feature in the case of exports.

Industrial policy in the Dominican Republic is at present concerned with promoting exports of manufactures, attracting foreign capital, and financing. The new law on industrial development and incentives enacted in 1968 gives top priority to the development of export industries. These are exempt from income tax and the payment of all customs duties on imports of machinery, raw materials and semi-processed products, fuels, lubricants and containers. Moreover, free industrial zones were created for the location of export industries, which can thus obtain additional benefits, such as, industrial buildings at low rents, and water and power supply facilities.

Uruguay's industry boomed in the period 1945-1955. Since 1956 there have been periodical recessions in the external sector, which, combined with acute inflation, have adversely affected manufacturing. As a result,

/efforts were

efforts were made to reformulate economic policy, and in 1964 the Investment and Economic Development Committee (Comisión de Inversiones y Desarrollo Económico - CIDE) prepared the Economic and Social Development Plan for 1965-1974. The Industrial Programme contained in this Plan assigns top priority to the promotion of exports. The wide range of promotion mechanisms includes preferential exchange treatment, exemption from sales tax, the drawback system which was later replaced by a system of temporary admission, and pre-shipment loans from the Central Bank.

(e) The Central American Common Market countries

The 1960 General Treaty, which was signed in 1960, brought the Central American integration system into operation and provided various mechanisms, first, to establish an expanded market that would lower the cost of import substitution, and, secondly, to define an over-all industrial policy. As a result of integration, the share of manufacturing in the total product rose from 11 per cent in 1950 to over 15 per cent at the end of the 1960s. The main instruments for promoting industrial development that have been put into effect in the integration process include the free trade system and the common external tariff, which are intended to bring the expanded market into full operation, the Special Central American Integration Industries Regime, provisions designed to standardize fiscal incentives to industrial development, the establishment of the Banco Centroamericano de Integración Económica (BCIE), and other measures which form part of more deliberate industrial programming.

According to the relative importance which the different instruments of the joint industrial policy have acquired, the regional economy may be said to have evolved from a national growth model based primarily on traditional exports to other regions to a new development pattern consisting of reciprocal relations between the various countries and based on a common expanded market.

/III. THE

III. THE MAIN INSTRUMENTS OF INDUSTRIAL POLICY

Although some countries have attempted to plan their industrial development, their efforts have not always been reflected in a reorientation of the measures and instruments for bringing it about. It has been this group of instruments, established at various states of economic development to meet different kinds of problems, which in the last analysis has determined the pace and pattern of industrial growth.

Three of the main groups of instruments or measures which form part of industrial policy in the Latin American countries are analyzed here, i.e., those for the protection of industry, those for the promotion of industrial development, and those for channelling financial resources into the industrial sector, and the various forms these instruments have taken and the extent to which they are being applied in a group of countries in the region are described.

1. Instruments for the protection of industry

The Latin American countries use a wide range of instruments for protecting their industry. There have been frequent changes in this system in the last few years, primarily aimed at simplifying or restructuring the system itself, or at extending the margins of protection to new products.[8/] The countries which have made most progress in industry are those which have adopted the most flexible and most easily applied protectionist policy and have endeavoured to limit the excessive protection accorded to established industries.

(a) The customs tariff

The instrument for the protection of industry which is most widely used at present and which has the greatest effect in some countries is the customs tariff. Its importance and the way in which it is applied vary greatly from country to country, as regards not only the nomenclature used - the Brussels Tariff Nomenclature (BTN), the Central American Standard Customs Nomenclature (NAUCA) or the Standard International Trade

8/ See table 1 in document ST/ECLA/Conf.37/L.8.

/Classification (SITC) -

Classification (SITC) - but also the unit to which it applies, whether in terms of value (c.i.f. or f.o.b. values, customs valuation, special values established by the competent authority, etc.) or quantity (weight or number of units), the way it is applied (ad valorem or specific rates, or a combination of both), and the amount of the duty involved.

If tariff structures are analyzed by type of product, the following facts are to be noted. With a view to encouraging more efficient use of installed industrial capacity, Argentina and Brazil have recently introduced changes in their tariffs, reducing those on final consumer goods which compete with domestic production, and raising the level of protection for raw materials and intermediate products, capital goods coming between the two.

The opposite is true of the rest of the countries analyzed. Colombia, Venezuela, Peru, Chile and Ecuador apply the highest tariffs to final consumer goods; the greater the possibility of producing them locally, or if they are luxury goods, the tariff is correspondingly higher. The duties on intermediate products, raw materials and capital goods on the whole are not so high as on consumer goods.

In Bolivia, tariff charges on products that are not manufactured locally are generally low, while imports of raw materials and capital goods not produced locally are duty free. In Paraguay, the liberal way in which the tariff is applied, combined with the large volume of illegal imports, largely negates any role tariffs might play in promoting domestic production. In Uruguay the tariff by product is not rationally applied in certain cases; for example, lower duties are levied on certain finished products than on the raw materials that are essential inputs for their manufacture.

(b) Other tariff mechanisms

This category comprises a number of mechanisms and controls which help to raise or to graduate the levels of protection for domestic industry, such as the application of different tariffs to products on different lists, the partial or total banning of imports on certain lists, systems of prior deposits, prior licences, special import procedures for certain products and differential charges (tariff surcharges, etc.).

/These instruments

These instruments are widely used in many Latin American countries, since it is easier to use them than to use the tariff to change the degree or level of protection accorded to certain products whose importation it is desired to discourage either temporarily or permanently.

(c) Foreign exchange policy

Foreign exchange policy, used extensively in the 1930s to stabilize the balance of payments, has lost some of its importance as a protective instrument, although it is still used for the same purpose in some countries. Foreign exchange policy usually takes the following forms in the Latin American countries: control of exchange operations, the establishment of several types of exchange rates (single, multiple, fixed, flexible), the existence of more than one foreign exchange market, and the allotment of foreign exchange through bidding.

2. Instruments for the promotion of industry

This heading covers a great many tax, tariff and foreign exchange measures for the promotion of new industries or the expansion and modernization of existing plants. Although they have been in force for many years, it is only recently that they appear to have had much effect, depending on how clearly defined their objectives were and how much cohesion there was between the objectives and the instruments by which they were to be attained.

They were prompted more by certain generally accepted ideas regarding the need to encourage the establishment of industries that would fulfil requirements such as: expanding basic manufacturing to produce new items to replace imports; encouraging the export of manufactures; using more locally produced raw materials; increasing employment; decentralizing industrial development; renewals of industrial plant and equipment; and modernizing some branches of industry.

Among the various instruments used by the countries of the region, industrial development laws are the most important in almost all countries. Although they differ in their actual content, they are very similar in their aims and in the machinery used for their application. Depending on the country, the favoured industries are, "basic", "essential", "in the national interest", "new", and other terms of this kind.

/Generally speaking,

Generally speaking, the emphasis in the development objectives pursued by these instruments has shifted from expanding basic manufacturing by producing more items to replace imports, to greater concern for efficiency and competitiveness and, in some cases, with a policy of using, local raw materials to produce special products. This is a corollary of the need to find new sources of dynamism in manufacturing for export as import substitution flagged.

The successful results that were undoubtedly obtained by applying instruments for the promotion of industrial development could have been much better if certain conditions - absent in the majority of cases - had been fulfilled. The need for these instruments to be related to an organic framework of industrial programming has already been mentioned. A second condition is that efforts must be made to eliminate institutional dispersal: there is a lack of co-ordination between the various ministries, development institutions, commercial banks, the Central Bank, etc., that apply the instruments. Finally, there is a certain lack of continuity in their application, due to frequent changes in the character, scope and aims of the measures taken.

(a) Customs and tariff instruments for the promotion of industrial development

The tariff, which used to be a clumsy and rather unselective protective instrument, has gradually been modified and become a more specific and selective instrument for industrial development. It is its use in this particular way that will be discussed in this section.

The action, effected through various instruments of this kind, has three main focuses: export industries; certain industries considered to be of prior importance ("new", "essential", "basic", etc.); and industrial decentralization.

In general terms, customs incentives may take the following forms: (i) exemption from export duties and charges; (ii) the drawback system; (iii) temporary admission system; (iv) exemption from import duties and charges; (v) other customs incentives.

/Several special

Several special decrees or laws authorize the Executive to abolish or reduce customs duties and charges on certain agricultural and industrial export products. These exemptions may be made in various ways and may be total or partial for any article exported, or they may be selective, applicable only to export industries classified as "essential" or "new", depending on the case.

To the same end, almost all the countries in the region have applied the drawback system, which lowers the cost of exported products and thus makes them more competitive. Under this system the customs duties (and in certain countries the exchange surcharges) on imported raw materials and intermediate products used in the production of export manufactures are refunded to the exporter.[9/]

The drawback is calculated on the percentage of imported inputs in the export product. The authorities that apply this system generally make their calculations on the basis of technological coefficients derived from normal output levels, which are applied to either the c.i.f. or the f.o.b. value of the export product. The drawback may be a total or only a partial refund, and it may be paid to the exporter in national currency, foreign currency, bonds, credits, etc. As a general rule, the refund is made within 180 days from the date of dispatch.

In order to get his drawback, the exporter must comply with certain requirements, the combinations of which vary from country to country and which include: classification of merchandise for export, presentation of the documents needed to prove that the goods have really been exported, and proof that the product exported is on the list of products eligible for such treatment, that the inputs and raw materials imported for its manufacture are not locally produced or are not of the required quality, that the value added by local manufacturing is substantial, that it is not an occasional but a regular export, etc.

In the same way as the drawback system, the temporary admission system is used exclusively as an export incentive, and in some countries it is applied to all types of exports of manufactures and in others only

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9/ In Colombia this applies also to imports of capital goods for the establishment or expansion of export industries.

/to exports

to exports of non-traditional manufactures. It covers exemption from all the duties and charges generally levied on imports (customs duties, prior deposits, etc.), and in some countries extends to consular fees and internal taxes.

This system differs from the drawback basically in two ways. In the first place duties are not refunded but temporarily suspended. Secondly, the imported goods which generally come into the country under the temporary admission system must be easily identifiable in the exported product in which they are incorporated. They are generally containers and packing materials, raw materials or semi-processed goods which are not highly processed in the country before being exported.

The temporary admission system is widely used and is granted mainly on imports of raw materials and semi-processed products used directly in the manufacture of products that are exported (Argentina, Brazil, Colombia, Chile, Peru, Venezuela and Uruguay), products for processing or packing and subsequent re-export (Mexico), parts or components utensils or appliances which supplement apparatus, machines or vehicles for export (Brazil and Uruguay), goods or materials used in packing, preparing or presentation of goods for export (Brazil, Mexico, Chile, Peru and Uruguay); and for any kind of merchandise which is re-exported within a certain time limit (Paraguay).

To obtain this privilege, the importer and subsequently the exporter must submit a guarantee, a banker's bond or some other kind of security, to the appropriate authority, ranging from a very small proportion of the total duties payable (5 per cent in Uruguay for imports not subject to surcharges) to almost prohibitive levels (in Colombia, five times the duties payable for imports that are banned).

Almost all countries in the region grant exemption from customs duties and charges (exchange surcharges or prior deposits) on imports of machinery and equipment to encourage the establishment of industries that are considered to be of primary importance. Generally speaking, specific requirements must be met before exemptions can be granted. They include the following:

- They must be intended for the installation, expansion or re-equipping of industries that are essential, basic of national interest, etc.;

- The industries must play a part: in import substitution; in developing new export products; in providing more employment or raising the percentage of locally produced raw materials and semi-processed products;

- The industries must help towards geographical decentralization and towards raising the level of industrialization in specified areas of the country;

- They must help to improve the country's production techniques by modernizing existing plants or introducing the most efficient machinery for new manufactures;

- Their production costs must be reasonable compared with international prices.

Apart from the customs incentives already listed, there are other forms of promotion in these countries which have to do with tariff policy and are generally directed towards stimulating export industries. Among these the following are of note: (i) customs exemptions on imports of raw materials, intermediate products and containers to be used exclusively in the processing and preparation of products for export (Bolivia, Brazil, Colombia, Chile, Ecuador, Mexico, Uruguay); (ii) the system for replenishing stocks of raw materials, equipment, etc., under which the duties and charges paid on imports of raw materials and intermediate products which are up to foreign standards in quantity and quality and which have been used in the production of manufactures for export are refunded (Brazil, Colombia, Chile); (iii) the system of allowing enterprises to import materials duty-free if they are used, under customs supervision, for the manufacture of products for export (Chile and Brazil); (iv) exemption from storage payments (Brazil or Venezuela), or prior import licences (Colombia) and exemption from export licences (Venezuela) are also in this category.

Finally, in Mexico, prior permits play a very important part as an instrument for the promotion of development, since the aim pursued in applying them is to encourage more intensive use of domestic inputs and a growing share of domestic capital in the investment of the authorized enterprises, which cannot operate without a prior permit.

/(b) Exchange

(b) Exchange instruments

The general aim of the incentives applied under the present foreign exchange policy is to promote non-traditional exports, and they generally consist in different terms and conditions for the repatriation of the foreign exchange earnings on exports which may take any of the following forms: measures that are really credit incentives in Argentina, Colombia and Chile; special exchange rates for these earnings when they reach the country in Colombia and Uruguay; partial or total exemption from charges on foreign exchange operations in Paraguay.

(c) Fiscal incentives

In the last few years fiscal incentives have been used increasingly to promote industrial development. They take the form of various kinds of tax exemptions and of lowering tax rates. They apply to income tax, sales tax, the tax on net worth, land tax, taxes on profits, taxes payable on the agreements establishing enterprises, exemptions, refunds or compensations for taxes levied on the domestic market that have a direct or indirect effect upon exports, etc.

Provisions regarding tax incentives are generally found in various types of legal measures - usually connected with the income tax laws - or in special industrial development laws.

Promotional measures of this kind are to be found in: the law on the development of new and essential industries in Mexico (January 1955); law 3005 on industrial development in Ecuador (December 1964); the law on the promotion of industrial development (November 1959) and the general law on industries (July 1970) in Peru; the Legislative Decree on promotion, incentives and co-operation to encourage private investment in Bolivia (October 1963); and the promotion laws of Paraguay (1953 and 1955).

The most common way in which the countries encourage the establishment of new productive units, increase their production and promote export industries is through income-tax exemptions or deductions for limited periods. In cases where industries are declared to be of national interest and are given top priority in the national development plans, the exemption may be total; the length of time for which the special treatment is granted varies, but is rarely more than ten years.

/Other tax

Other tax incentives include cuts in sales and purchase taxes on locally produced inputs and intermediate products used in manufacturing.

In some countries, export firms may be granted tax incentives in the form of a refund of taxes paid on the domestic market which have a direct or indirect effect on export goods.

In an effort to increase sources of domestic financing on which enterprises can draw and to promote improved techniques, the countries of the region grant various fiscal incentives, which include the following: accelerated depreciation, tax exemptions on reinvested profits; revaluation of assets and the right to deduct certain amounts from the profits subject to income tax (which may be the amounts used for direct capital investment, for the purchase of shares, for the replenishment of operating capital, etc.) such deductions are tax-free.

Measures under which the rate of depreciation may be increased according to the intensiveness with which the capital is used are specifically designed to allow more advantage to be taken of the depreciation funds maintained by manufacturing enterprises. These measures - which also have the indirect effect of encouraging more rapid replacement of machinery and equipment - mean that the volume of taxable profits is reduced, (since operating costs are increased by the increased cost of depreciation).

IV. INDUSTRIAL FINANCING POLICY

In all countries of the region, one of the concerns of economic policy has been to provide the industrial sector with financial resources. The instruments used have been designed to increase the volume of resources and improve the terms on which they are made available to industrial enterprises. They include taxation provisions governing depreciation, reserves and the reinvestment of profits; general regulations governing credit; regulations governing the organization and operation of capital markets; policies covering direct foreign investment; and the activities of government industrial promotion agencies.

/Nevertheless, it

Nevertheless, it is rare for countries to have managed to co-ordinate the volume and terms of the credit made available to industry with all the changing financial needs characteristic of the different phases of industrial growth.

As the pace of industrialization stepped up during the post-war period, financial needs grew considerably, with the result that the coefficient of direct and indirect financial requirements per unit of final product increased, and the demand for long-term financial resources expanded.

During the subsequent stage of industrial growth, the remedy for the private sector's needs has, it seems, proved to be neither long-term financing nor real saving to expand productive capacity, but rather an additional and growing supply of medium-term resources to finance the stocks of products and make facilities available for installment purchases.

To meet its financial needs, industry relied on its own resources (depreciation and reinvestment of profits) and on external resources (stock market, credit, external financing, etc.). Given the inadequacy of self-financing, enterprises have resorted in large measure to the latter, i.e., the stock market, credit from the national financial system and investment and loans from abroad. In most countries of the region, the stock markets are not sufficiently developed, owing to some extent to the fact that a large number of enterprises are family-owned and also to the persistent inflation in certain countries, particularly as regards the acceptability of fixed-income securities.

In contrast to the stock markets, which are inflexible and on the decline, domestic credit mechanisms have been providing a growing amount of financial resources to industrial enterprises, through private bank credit and the activities of public enterprises which have helped to expand and improve the terms of industrial credit.

Although short-term credit to finance operations has tended to change to suit enterprises' needs, the same does not appear to have happened with the supply of medium- and long-term credit for investment, financing stocks or installment purchases.

/In view

In view of the growing demand for medium- and long-term credit, and the fact that such credit is constantly being diverted to other types of operation, in particular the purchase of real state, a number of private financial enterprises have been established in certain countries in recent years which have greater freedom of action as regards repayment periods but which substantially raise the cost of credit. Special State funds have also been set up to operate through the banking and private company system and are now on quite a large scale. Government activities in this field have taken various forms, including budgetary allocations of funds for investment in specific projects, financial support for the capital market and the rediscounting by the Central Bank of bills held by the industrial sector.

The industrial development of Argentina has been substantially promoted by its credit policy. Created in 1944, the Banco Industrial has several special credit funds and systems, including special credit arrangements for industries wishing to raise productivity, financing for pilot projects in which new production techniques are to be used, etc. The Central Bank provides the commercial banks with funds to supply credit to the sectors it is wished to develop. The National Development Council (Consejo Nacional de Desarrollo - CONADE) has a Standing National Fund (established in 1967) for providing financial assistance to the industrial sector at the pre-investment stage.

With regard to total resources channelled through financial intermediaries to the different sectors, loans to the industrial sector are probably highest in Brazil. The Banco do Brasil S.A., the Government's financial agent, carries out development activities and grants medium- and long-term credit. The Banco Nacional de Desenvolvimento (BNDE) includes among its main functions the provision of financial assistance for the basic sectors of the economy, financing of regional projects, direction and selection of investment in accordance with certain priorities, administration of loans granted by international agencies, promotion of projects and programmes for education and scientific and technical research - which it carries out through the Fund for the Development of Science and Technology (Fundo de Desenvolvimento Técnico-Científico - FUNTEC) -,

/studies aimed

studies aimed at increasing the productivity of enterprises and sectors connected with industry - through the Fund for Expansion of Productivity (Fundo de Desenvolvimento da Productividad - FUNDEPRO). The Banco do Nordeste do Brasil S.A., is the financial agent of the Development Agency for the Northeast (Superintendência de Desenvolvimento do Nordeste - SUDENE) and is mainly engaged in granting loans to productive enterprises in that region. The Government has also created Development Funds, such as the Special Agency for Industrial Financing (Agência Especial de Financiamento Industrial - FINAME), which finances purchases and sales of domestic machinery and equipment, the Fund for Financing Small- and Medium-Size Enterprises (Fundo de Financiamento às Pequenas e Médias Emprêsas - FIPEME), and the Finance Company for the Study of Programmes and Projects (Financiadora de Estudos e Projectos S.A. - FINEP), which finances development surveys and projects in the basic sectors.

In Mexico, the Nacional Financiera S.A., (NAFINSA) which is an official development institution, and the Banco de México S.A., which operates as a Central Bank, support the capital market, maintaining the prices of the principal securities quoted. NAFINSA is also responsible for channelling domestic and foreign long-term credits and supports the Federal Government in issuing Government securities. Other official credit agencies contribute to the capital formation of certain specific institutions, such as the Unión Nacional de Productores de Azúcar, the Financiera Nacional Azucarera, the Banco Nacional Hipotecario Urbano y de Obras Públicas, the Banco Nacional de Fomento Cooperativo, the Fondo de Garantía y Fomento a la Industria Mediana and the Patronato del Ahorro Nacional. The Banco Nacional de Comercio Exterior backs operations connected with the export of manufactures.

Credit policy in Colombia has developed within a framework of monetary restrictions, with controlled extension of means of payment, and these factors are responsible for the high cost of authorized loans. Credit is mainly channelled through the commercial banks, insurance companies, financial corporations, Inversiones Esso and the Fondo de Inversión Privada (FIP). There are also two State-run credit institutions, the Banco Popular and the Caja Agraria, which provide financial assistance for

/small- and

small- and medium-size industry, although their working capital is relatively limited. The activities of FIP, set up within the Banco de la República with funds provided by AID, the Inter-American Development Bank (IDB) and certain European Governments, involve financing industrial, agricultural, stock-farming and mining activities aimed at the diversification and promotion of exports. The Industrial Development Institute (Instituto de Fomento Industrial - IFI) was established in 1940 with the object of promoting basic industries in those fields in which private enterprise was not operating.

In Chile, the sources of industrial financing are commercial banks (for short-term requirements), the Production Development Corporation (Corporación de Fomento de la Producción - CORFO), the Banco del Estado and insurance companies. CORFO has played a basic role in Chile's development and is the most important source of long-term industrial financing.

A large proportion of industrial financing in Peru is provided by the Banco Industrial since loans extended by commercial banks are all short-term and are, in any case, fairly limited.

Bolivia's industry is financed by three institutions: the Bolivian Development Corporation, through a Credit Division which operates with external financial sources, the Banco Industrial S.A., a private concern, and the Central Bank, through its Industrial Credit Department, whose loans are financed by the Government.

Ecuador has two types of financing institutions: traditional agencies which grant short-term commercial loans, and development agencies, such as the Ecuadorian Financing Corporation (Corporación Financiera Ecuatoriana - COFIEC), the National Financing Corporation and the Banco Nacional de Fomento, which extend medium- and short-term loans. The Central Bank controls monetary policy, but its direct credit assistance is limited to small-scale enterprises.

In Venezuela, public financial sources include the Venezeulan Development Corporation (Corporación Venezolana de Fomento - CVF), the Ministry of Development and the Banco Industrial de Venezuela, while the main private sources are commercial banks, the Compañía Anónima Venezolana de Desarrollo and the Compañía de Inversiones Creole.

/In Paraguay,

In Paraguay, the National Development Bank grants medium- and long-term loans, which it provides both from its own resources and from external credit. The Central Bank is another source of industrial credit, accounting for a little over 10 per cent of the total credit extended to industry.

The most important sources of credit in the Dominican Republic are the private commercial banks, the Central Bank and certain institutions connected with it. The main function of the Investment Fund for Economic Development (Fondo de Inversiones para el Desarrollo Económico - FIDE) - which operates in the Central Bank with contributions from AID, IDB and the Central Bank itself - is to extend medium- and long-term credit to private enterprises for projects which contribute towards the country's development. The Industrial Development Corporation (Corporación de Fomento Industrial - CIFI) operates technical and financial assistance programmes in the manufacturing sector and is engaged in the following activities: the granting of credit, the issue of bonds, mortgage bonds and share certificates and the sponsoring of research related to industry.